

Message Text

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ACTION EB-11

INFO OCT-01 AF-10 ARA-16 NEA-10 ADP-00 EUR-25 L-03 PM-07

NSC-10 SS-15 RSC-01 COME-00 INT-08 SCEM-02 TRSE-00

CIEP-02 OMB-01 CIAE-00 INR-10 NSAE-00 PRS-01 H-03

RSR-01 OPIC-12 /149 W

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P R 042120Z AUG 73

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 8978

INFO AMCONSUL RIO DE JANEIRO

AMEMBASSY ROME

AMEMBASSY ATHENS

AMEMBASSY TRIPOLI

C O N F I D E N T I A L BRASILIA 4925

FOR UNDER SECRETARY CASEY

E.O. 11652: N/A

TAGS: ENRG, LY, BR

SUBJECT: PETROLEUM: BUNKER HUNT NATIONALIZATION

REF: STATE 151918

1. AFTER COORDINATING WITH BRITISH EMBASSY, I CALLED ON FONOFF SECGEN CARVALHO E SILVA LATE YESTERDAY TO MAKE APPROACH INSTRUCTED IN REFTEL. IN ADDITION TO FULL EXPOSITION OF SPECIFIC POINTS IN PARA 6 AND 7 REFTEL, I STRESSED THAT TO ENCOURAGE LARG TO USE SELECTIVE AND DISCRIMINATORY TAKEOVER OF FOREIGN INTERESTS AS WEAPON OF POLITICAL REPRISAL AND COERCION OF OTHER ECONOMIC INTERESTS RAN THE RISK OF CREATING EMULATIVE EFFECTS IN OTHER COUNTRIES WHICH COULD DO SERIOUS HARM TO INTERESTS OF ALL OIL CONSUMING COUNTRIES, INCLUDING BRAZIL.

2. IN COURSE MY INITIAL EXPOSITION, CARVALHO E SILVA
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MADE SEVERAL REMARKS:

A. HE SUGGESTED THAT CONDITIONS THAT NATIONALIZATION SHOULD BE FOR PUBLIC PURPOSE AND NON-DISCRIMINATORY APPEARED TO BE NEW POLICY; HIS UNDERSTANDING HAD ALWAYS BEEN THAT ESSENTIAL CONDITION FROM OUR VIEWPOINT HAD RELATED TO PROMPT, ADEQUATE AND EFFECTIVE COMPENSATION. I REPLIED THOSE CONDITIONS HAD ALWAYS BEEN INHERENT IN OUR VIEW OF INTERNATIONAL LAW, ALTHOUGH WE HAD NEVER FACED SUCH OVERTLY POLITICALLY-INSPIRED ACTION AS LARG WAS NOW ENGAGING IN.

B. HE INQUIRED AS TO WHETHER POLITICAL MOTIVATION OF LARG ACTION WAS STATED IN NATIONALIZATION LAW. I REPLIED MY UNDERSTANDING WAS IT WAS STATED IN KHADAFI SPEECH AND OFFICIAL LARG RADIO STATEMENT EXPLAINING THE LAW.

C. HE ASKED WHAT WE MEANT BY CHARACTERIZING LARG ACTION AS "DISCRIMINATORY" IN VIEW PREVIOUS ACTION AGAINST BP. I REPLIED LARG WAS ACTING SELECTIVELY ON POLITICAL GROUNDS AND WITH EXPLICIT INTENTION OF BRINGING PRESSURE TO BEAR ON OTHER FOREIGN COMPANIES CURRENTLY NEGOTIATING WITH LARG.

3. ON COMPLETION OF MY INITIAL PRESENTATION, SECGEN SAID FONOFF WOULD TAKE MATTER UP WITH PETROBRAS. I POINTED OUT THAT DEMARCHE WAS ADDRESSED NOT TO PETROBRAS BUT TO BRAZILIAN GOVERNMENT ON FOREIGN POLICY AS WELL AS LEGAL BASIS, AND TOOK OCCASION TO REITERATE THE POLITICAL ARGUMENT NOTED ABOVE.

4. IN HIS CHARACTERISTICALLY INDIRECT MANNER, CARVALHO E SILVA SAID HE THOUGHT HE UNDERSTOOD THERE HAD BEEN SOME DISCUSSION OF OIL POLICY DURING TANAKA VISIT TO WASHINGTON AND ASKED IF ANYTHING WERE GOING ON WITH RESPECT TO ORGANIZATION OF A "BUYERS' CARTEL" ON OIL. I REPLIED I WAS NOT INFORMED ON THIS POINT, BUT THAT US, BRAZIL AND OTHER IMPORTING COUNTRIES CLEARLY FACED A COMMON PROBLEM IN TERMS OF PETROLEUM IMPORTS.

5. SECGEN REJOINED THAT FONOFF FULLY SHARED THIS VIEW,
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AND MADE CLEAR (ALBEIT INDIRECTLY) THAT THEY FELT IT IMPORTANT FOR BRAZIL TO BE INCLUDED IN ANY CONSULTATIONS ABOUT HOW TO DEAL WITH LONG-TERM PROBLEM OF OIL SUPPLY. BRAZIL WAS DEEPLY DEPENDENT ON OIL IMPORTS AND HAD LITTLE CONTROL OVER SUPPLIES, HENCE FELT PARTICULARLY VULNERABLE; IT WAS FOR THIS REASON THAT PETROBRAS HAD TO SEEK OIL SUPPLIES WHERE IT COULD FIND THEM. STILL INDIRECTLY SECGEN SUGGESTED THAT IF FONOFF WERE BETTER

INFORMED ON OUR APPROACH TO JOINT CONSUMER ACTION AND HAD SOME ASSURANCE GOB WOULD BE CONSULTED AND BRAZIL'S INTERESTS WOULD BE TAKEN INTO ACCOUNT, FONOFF WOULD BE IN A POSITION TO EXERCISE MORE INFLUENCE OVER PETROBRAS (WHICH AS DEPT AWARE IS A POWERFUL ORGANIZATION WITH A MANDATE TO INSURE OIL SUPPLY AND STRONG POLITICAL ROOTS IN THE MILITARY ESTABLISHMENT).

6. IN CONCLUDING THE MEETING, SECGEN SAID HE WOULD TAKE MATTER UP WITH FOREIGN MINISTER, BUT MADE NO COMMITMENT ON THE SUBSTANCE, LEAVING IMPRESSION THAT WITH REGARD TO THIS PARTICULAR DEAL, AT LEAST, MATTER WOULD BE ALLOWED TO TAKE ITS NATURAL COURSE IN THE COURTS.

7. COMMENT: WHILE I DOUBT THAT DEMARCHE WILL PRODUCE ANY CONCRETE ACTION, I BELIEVE CARVALHO E SILVA WAS IMPRESSED WITH THE POLITICAL POINT OF OUR DEMARCHE, AND THAT THE POLICY QUESTION WILL BE REVIEWED CAREFULLY AT LEAST WITHIN FONOFF. FACT THAT ON REFLECTION SECGEN AGREED TO TAKE MATTER UP AT HIGHER LEVEL (RATHER THAN MAKE ROUTINE DEMARCHE TO PETROBRAS, WHICH WAS HIS FIRST INSTINCT) IS MILDLY ENCOURAGING. FONMIN, HOWEVER IS A REALIST WHO KNOWS WHERE THE POWER LIES; HE IS THEREFORE UNLIKELY TO FEEL HE CAN INFLUENCE PETROBRAS BUYING POLICY IN ABSENCE SOME INDICATION OF OTHER APPROACHES TO OIL SUPPLY WHICH WOULD MEET BRAZIL'S PROBLEM.

8. BRITISH CHARGE MADE SIMILAR DEMARCHE AND RECEIVED PARALLEL COMMITMENT THAT MATTER WOULD BE TAKEN UP WITH FOREIGN MINISTER. SECGEN DID NOT, HOWEVER, GO INTO PROBLEM IN SAME DEPTH WITH BRITISH, AND SPECIFICALLY ASKED THAT HIS REMARKS REPORTED IN PARAS 4 AND 5 ABOVE NOT RPT NOT BE RELAYED TO BRITISH.

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